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THE EMPORIUM CAPWELL COMPANY

Annual Report

FOR THE YEAR ENDED

January 31 · 1946

**SAN FRANCISCO
CALIFORNIA**

The information herein is intended solely as a report to the stockholders to whom this report has been addressed and is not a representation, prospectus or circular in respect to any stock, note, bond or other security of any corporation, and is not transmitted in connection with any sale or offer to sell or any negotiation for the sale of any stock, bond or other security.

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THE EMPORIUM CAPWELL COMPANY

(A CALIFORNIA CORPORATION)

THE EMPORIUM • SAN FRANCISCO

**EIGHTH AND MARKET REALTY
COMPANY • SAN FRANCISCO**

THE H. C. CAPWELL CO • OAKLAND

**TWENTIETH AND BROADWAY
REALTY COMPANY • OAKLAND**

MEMBERS OF THE BOARD OF DIRECTORS

R. H. BIGGS	WILLIAM FRIES	WILSON MEYER
J. S. CIVELLI	MARK L. GERSTLE	HAROLD D. PISCHEL
BRUCE DOHRMANN	L. W. HARRIS	M. C. SLOSS
HALDANE S. FISHER	F. S. HIRSCHLER	J. FRANK SULLIVAN
	E. C. LIPMAN	

OFFICERS OF THE COMPANY

<i>President</i>	HALDANE S. FISHER
<i>Vice-Chairman and Vice-President</i>	M. L. GERSTLE
<i>Vice-Chairman</i>	M. C. SLOSS
<i>Vice-President and Managing Director of The Emporium</i>	E. C. LIPMAN
<i>Vice-President and Managing Director of The H. C. Capwell Co.</i>	R. H. BIGGS
<i>Secretary and Treasurer</i>	W. F. KAPLAN
<i>Assistant Treasurer</i>	R. B. WATSON
<i>Assistant Secretary</i>	M. G. MILSTED

TRANSFER AGENT

The Bank of California, N. A., San Francisco

REGISTRAR

The Anglo California National Bank of San Francisco

Annual Stockholders' Meeting

April 25, 1946 • 11:15 A. M.

Executive Offices

835 Market Street • San Francisco 3

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1945/46

April 1, 1946

TO THE STOCKHOLDERS
THE EMPORIUM CAPWELL COMPANY

Submitted herewith are the Balance Sheet and the simplified Annual Income and Surplus Statement of your Company for the fiscal year ended January 31, 1946.

Net profit, after all taxes, Preferred and Preference dividends, and a special charge of \$500,000 to augment reserve for contingencies was \$2,263,993. This profit is also after charging off a book loss of \$285,344, sustained during the year on sale of the property under long-term lease to the Pacific Greyhound Corporation, at Seventh, Stevenson, Jessie and Mission Streets, as well as a small parking lot at Jessie and Seventh Streets, both in San Francisco. The reserve heretofore provided from surplus for such losses has been correspondingly reduced. This leaves a balance of \$332,757 in the reserve to cover possible future loss on remaining properties not used by the department store units.

Total department store net sales, including leased departments, were \$53,467,159, as compared with \$48,617,240, an increase of 9.98%. Sales of The Emporium were \$33,985,652, and of The H. C. Capwell Company \$19,481,507.

Working capital at the close of the year was \$7,458,733, compared with \$8,421,440. Cash funds amounted to \$1,717,757, compared with \$1,454,594. United States Government securities, including Tax Savings Certificates, totaled \$9,960,000. Federal taxes accrued for the year, subject to review by the Bureau of Internal Revenue, were \$6,658,500.

Merchandise inventories, including goods in transit on January 31, 1946, were \$5,368,296, at the lower of cost or market, compared with \$5,532,756 one year ago.

The entire issue of Series A, 4½% Cumulative Preference Stock (90,000 shares) was retired at January 1, 1946. The attached warrants, enabling purchase of Common shares at \$34.00 each, were exercised to the extent of 89,381 shares—or a total of \$3,038,954; which amount, in its entirety, was added to stated capital. At January 31, 1946, there were outstanding 502,234 shares of Common stock.

In order to provide necessary funds for (1) authorized improvements, including additions to our principal warehouses in Oakland and San Francisco, on adjacent property owned, and expansion of selling space and transportation facilities at The H. C. Capwell Company, by installation of a mezzanine floor, service elevator and additional escalators, and (2) to initiate a reserve available for improvements or quarters for The Emporium, which occupies premises presently under lease to December 31, 1959, the respective sums of \$2,000,000 and \$500,000 have been appropriated from earned surplus and corresponding amounts of Government securities have been set aside to meet such expenditures, when and if required.

No estimate of the future can be made with any assurance of accuracy. We hope that before many months the present scarcity of goods will be ameliorated, and that we may again be able to man our stores with sufficient competent personnel to render the standard of service to which you and all our customers are entitled.

We pause again especially to commend the loyalty and valor of our thirteen young men who went into the service of their country and there lost their lives. A large proportion of our service men and women have returned and have rapidly and happily adjusted themselves to civilian and business life. We here reaffirm our repeatedly expressed policy of "Promotion from within."

We are truly grateful for the continued patience universally displayed by customers, the loyalty and unstinted efforts of our employees, the firm support of our stockholders, and the wholehearted cooperation of our resources through another difficult year.

Accompanying this report is a Notice of the Annual Meeting at 11:15 A.M., on Thursday, April 25, 1946, on the Sixth Floor of The Emporium, San Francisco, together with a Proxy Statement and a Proxy for use if you cannot be present. We should especially like to meet and greet you in person.

For the Directors

Haldaue S. Fisher

President

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ASSETS

CURRENT ASSETS:

Cash on hand and on deposit.....		\$ 1,717,757.36
United States Government securities, at cost plus accrued interest.....	\$3,326,450.12	
Less unexpended funds shown below, reserved for anticipated and contingent capital expenditures.....	2,500,000.00	826,450.12
Note receivable (portion due within one year).....		36,217.50
Accounts receivable—trade:		
Current.....	\$2,553,929.84	
Installment (due prior to January 31, 1947).....	392,938.48	
	2,946,868.32	
Less reserve.....	55,000.00	2,891,868.32
Merchandise inventories priced by the retail inventory method of accounting, at the lower of cost or market, and goods in transit (\$921,713.14) at cost.....		5,368,296.62
TOTAL CURRENT ASSETS.....		\$10,840,589.92

OTHER ASSETS:

Note receivable—secured by property sold (less \$36,217.50 due within one year).....	\$1,557,307.50	
Federal tax claim.....	137,060.55	
Miscellaneous investments, deposits, accounts, etc.....	143,968.19	
Funds, deducted above, to provide for future improvements or quarters—Emporium store.....	500,000.00	2,338,336.24

PROPERTY, FIXTURES AND EQUIPMENT:

Land, buildings and equipment (at cost less reserve of \$1,650,176.87)...	\$4,440,125.25	
Leasehold (at March 1, 1913 value less reserve of \$813,511.64).....	96,694.42	
Leasehold improvements (at cost less reserve of \$521,786.80).....	463,199.10	
Funds, deducted above, for authorized capital expenditures.....	2,000,000.00	7,000,018.77

REAL ESTATE NOT USED IN DEPARTMENT STORE OPERATIONS:

(Appraised value July 9, 1939 \$1,255,600.00)		
Land, buildings and equipment (at cost less certain reductions to appraisal in 1932 and less reserve of \$207,721.77).....	\$1,506,185.80	
Leasehold (at cost less reserve of \$70,256.95).....	73,675.18	\$1,579,860.98
Less reserve for possible loss.....	332,757.06	1,247,103.92

GOOD WILL (nominal value).....		1.00
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DEFERRED CHARGES:

Inventory of supplies at cost.....	\$ 228,338.77	
Prepaid taxes.....	147,385.85	
Prepaid insurance, etc.....	39,905.89	415,630.51
		<u>\$21,841,680.36</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable.....		\$ 3,025,877.01	
Taxes (other than federal taxes on income).....		355,980.94	
Federal taxes on income—estimated.....	\$6,658,500.00		
Less U. S. Treasury Notes—Series C.....	6,658,500.00	—0—	
TOTAL CURRENT LIABILITIES.....			\$ 3,381,857.95

RESERVES:

For possible future inventory price decline and other contingencies....	\$2,750,000.00		
For taxes, employees' benefits and miscellaneous.....	18,635.88	2,768,635.88	

DEFERRED INCOME:

Unearned interest on installment sales.....	\$ 11,066.67		
Prepaid rentals received and miscellaneous.....	6,961.84	18,028.51	

CAPITAL STOCK AND SURPLUS:

Capital stock:

Seven per cent cumulative preferred (\$100.00 par value; redeemable upon dissolution only, at par; dividends paid to September 30, 1945):

Authorized 2,603 shares; issued and outstanding 2,158 shares. \$ 215,800.00

Common (without par value):

Authorized 650,000 shares; issued and outstanding 502,234 shares:

Stated value (as fixed by Board of Directors)..... 9,919,837.33 \$10,135,637.33

Surplus:

Paid-in..... \$1,630,924.70

Earned:

Appropriated for anticipated and contingent

capital expenditures..... \$2,500,000.00

Unappropriated—Note A..... 1,406,595.99 3,906,595.99 5,537,520.69 15,673,158.02

\$21,841,680.36

Note—The note hereinabove referred to appears on page five of this report.

THE EMPORIUM CAPWELL COMPANY
INCOME AND SURPLUS ACCOUNTS

	YEAR ENDED JANUARY 31, 1946		YEAR ENDED JANUARY 31, 1945	
Net sales of merchandise.....		\$53,467,159.08		\$48,617,239.76
Less net sales of leased departments.....		5,416,090.92		5,248,466.65
Net sales—own departments.....		\$48,051,068.16		\$43,368,773.11
Cost of goods sold.....	\$28,142,644.83		\$25,305,233.55	
Expenses.....	10,673,716.90	38,816,361.73	9,668,657.34	34,973,890.89
NET OPERATING INCOME—OWN DEPARTMENTS		\$ 9,234,706.43		\$ 8,394,882.22
Income from leased departments in excess of expenses pro- rated to such income.....		272,989.29		257,954.46
NET OPERATING INCOME.....		\$ 9,507,695.72		\$ 8,652,836.68
Net profit from real estate not used in department store operations.....	\$ 117,848.68		\$ 151,158.92	
Other income.....	332,318.28		182,144.01	
Less other deductions*.....	411,500.77*	38,666.19	644,307.16*	311,004.23*
NET INCOME BEFORE FEDERAL TAXES ON INCOME AND SPECIAL CHARGE.....		\$ 9,546,361.91		\$ 8,341,832.45
Federal taxes on income, estimated—Note A:				
Normal income and surtax.....	\$ 837,500.00		\$ 575,785.00	
Excess profits tax.....	5,821,000.00		5,232,627.00	
Less overprovision for prior year*.....	93,737.26*	6,564,762.74	44,352.58*	5,764,059.42
		\$ 2,981,599.17		\$ 2,577,773.03
Provision for possible future inventory price decline and other contingencies.....		500,000.00		750,000.00
NET INCOME.....		\$ 2,481,599.17		\$ 1,827,773.03
Preferred dividends paid:				
Preference stock—\$2.25 per share.....	\$ 202,500.00		\$ 202,500.00	
Preferred stock—\$7.00 per share.....	15,106.00	217,606.00	15,106.00	217,606.00
		\$ 2,263,993.17		\$ 1,610,167.03
EARNED SURPLUS BALANCE BEGINNING OF PERIOD.....		3,159,142.25		1,742,781.95
OTHER CREDITS TO SURPLUS:				
Transfer from reserve for real estate of amounts equal to losses (charged under other deductions above) on properties sold.....		285,343.67		631,899.27
		\$ 5,708,479.09		\$ 3,984,848.25
CHARGES TO SURPLUS:				
Common stock dividend \$2.60 and \$2.00 per share..	\$ 1,196,937.60		\$ 825,706.00	
Write-off of carrying charges previously capitalized in amount for Capwell store land.....	379,945.50		—0—	
Premium on preferred stock retired.....	225,000.00	1,801,883.10	—0—	825,706.00
EARNED SURPLUS BALANCE CLOSE OF PERIOD.....		\$ 3,906,595.99		\$ 3,159,142.25
PAID-IN SURPLUS BALANCE CLOSE OF PERIOD.....		\$ 1,630,924.70		\$ 1,630,924.70

NOTE TO FINANCIAL STATEMENT

Note A—Gross profit on installment sales, for accounting purposes, is taken into income at the time of sale. Such income is reported on the same basis for excess profits tax. The amount of gross income not yet reported for normal and surtax was \$157,019 at January 31, 1946, and at then existing rates, the maximum tax applicable thereto was \$59,667. The effect on income for the fiscal years herein reported was nominal.

ACCOUNTANTS' REPORT

BOARD OF DIRECTORS,
THE EMPORIUM CAPWELL COMPANY,
SAN FRANCISCO, CALIFORNIA.

We have examined the balance sheet of THE EMPORIUM CAPWELL COMPANY as of January 31, 1946, and the statements of income and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of THE EMPORIUM CAPWELL COMPANY at January 31, 1946, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants.

San Francisco, California.
March 25, 1946.



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